

CITY OF FERNDALE
Whatcom County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. Public Funds Were Misappropriated

Our audit of the financial records of the City of Ferndale Municipal Court revealed that at least \$9,495.77 in public funds was misappropriated by Ms. Pamela J. Orloff, Court Clerk, during the period August 1, 1992, through October 27, 1993. There were no federal funds involved in this case. These funds were misappropriated as described below.

- a. Ms. Orloff manipulated accounting records to misappropriate public funds by using a check for cash substitution scheme. Some check payments received from customers were not receipted in the court's accounting system. Other check payments were receipted in amounts which were less than the amount actually paid by customers. When these checks were deposited in the bank as a part of the court's deposit of cash receipts, a corresponding amount of cash was stolen. The amount of loss from this method was \$2,113.00.
- b. Recorded cash collections from customer payments were stolen. While cash receipt documents indicated that both cash and checks were received from customers, these funds were not subsequently deposited in the court's bank account. The amount of loss from this method was \$7,382.77.

As the court clerk during the period of this loss, Ms. Orloff was responsible for recording cash receipt transactions and making bank deposits. She resigned her employment with the City of Ferndale on November 15, 1993. On January 12, 1994, Ms. Orloff stated to a Ferndale police officer that she had misappropriated funds from the city during her period of employment.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who:

(1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed these misappropriations to occur and not be detected in a timely manner:

- a. There was an inadequate segregation of duties in the municipal court. Most of the accounting functions for cash receipt and disbursement transactions within the court were the primary responsibility of the court clerk. However, there was no periodic review of the court clerk's work by other city management officials who were independent of the court.
- b. Deposits were not made intact daily. In addition, cash receipts were not always deposited in the order received. There often was no logic to the sequence of recorded cash receipts included in the court's bank deposits.
- c. Cash receipts were not properly accounted for and controlled. For example, our review of cash receipt forms issued in 1992 revealed the following: (1) Receipts were often issued out of sequence; (2) No one was able to locate 39 receipt forms; (3) All receipts issued were not recorded on the transaction journal; (4) Some receipts were recorded on the transaction journal in amounts which were less than the amount actually paid by customers; and, (5) All copies of voided receipt forms could not be properly accounted for or explained.
- d. The bank account was not promptly or properly reconciled each month.
- e. All checks issued from the court's checking account were not properly accounted for and controlled. Some checks were not entered on the transaction journal, while others were issued out of sequence. In addition, some check entries on the transaction journal were not supported by the actual checks which had been issued.
- f. The bail trust account was not reconciled to the amount of funds held on deposit in the bank or to the detail of the court's bail pending records each month.
- g. Records of traffic citations issued by the police department and records of citations received and processed by the municipal court were not periodically reconciled to ensure all citations were properly accounted for and controlled as required by RCW 46.64.010.

We recommend the City of Ferndale seek recovery of the misappropriated \$9,495.77 and related audit/investigation costs from the insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Whatcom County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for city employees is as follows:

Association of Washington Cities Risk Management Service Agency
Blanket Employee Dishonesty Including Faithful Performance
\$250,000 With No Deductible Provision
January 1, 1992, through January 1, 1994

We also recommend the city:

- a. Review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal controls designed to ensure the protection of city assets.
- b. Notify the insurance bonding company of this claim.

2. The City Should Restrict Fund Expenditures To Authorized Budget

We noted that expenditures were made in 1992 in the following funds prior to the council authorizing those expenditures by budget amendment on December 28, 1992:

Current Expense	\$55,507
Urban Arterial Construction	147,432
Water	
27,075	

RCW 35A.33.120 states, in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the code city, the expenditures of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount appropriated for each fund in the budget for the current fiscal year . . .

(5) Expenditures required for emergencies

In addition, RCW 35A.33.125 states:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon an order of a court or competent jurisdiction or for emergencies as provided in this chapter.

Expenditures in excess of budget prior to year end occurred because city officials failed to make the budget amendment in a timely manner.

By incurring expenditures in excess of appropriations, city officials are circumventing the state mandated budgetary process which allows public input prior to expenditures being made.

We recommend that the city develop and implement a system of controls which will prevent expenditures in excess of budget authorizations. This should include effective budget monitoring and timely budget amendments.